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GUNNAR MINING


L I M I T E D

35TH

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1968



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**GUNNAR MINING
LIMITED**

Suite 1707, 80 Richmond St. West
Toronto 110, Ontario

**BOARD
OF
DIRECTORS
AND
EXECUTIVE
OFFICERS**

ANNUAL MEETING

June 16, 1969, 11.00 A.M. (Toronto Time)
Library, Royal York Hotel,
Toronto, Ontario

BOARD OF DIRECTORS

JOHN N. BOTSFORD, Toronto, Ont.

JOSEPH S. LABINE, Toronto, Ont.

A. DOUGLAS MCKEE, Toronto, Ont.

HAROLD MCNAMARA, Toronto, Ont.

WILLIAM MCNAMARA, Montreal, Que.

THOMAS P. O'CONNOR, Toronto, Ont.

ERNEST J. SPENCE, Toronto, Ont.

EXECUTIVE OFFICERS

T. P. O'CONNOR, *President*

J. N. BOTSFORD, *Vice-President and General Manager*

J. S. MCFADDEN, *Secretary*

A. H. CROSS, *Treasurer and Assistant Secretary*

DIRECTORS' REPORT

May 29th, 1969.

To the Shareholders,
GUNNAR MINING LIMITED:

Net income for the year 1968 was \$255,000 compared to \$144,000 earned in 1967. The profit improvement was obtained from a gross revenue of \$52,418,000, a decrease from the 1967 gross revenue of \$67,270,000. The 1968 income account includes a charge of \$262,000 arising from an under-recovery of prior years income taxes. Working capital showed an increase from \$458,000 at the beginning of the year to \$1,068,000 at the year end. Bank indebtedness was reduced during the year by \$3,029,000. The Consortium Agreement with the Company's Bankers and Bonding Company has been again extended and now applies until the end of 1970.

CONSTRUCTION

The Heavy Construction and Newfoundland divisions experienced satisfactory operating margins. The volume of work completed by these divisions amounted to \$23,000,000 against \$29,000,000 in 1967. Unfinished work on hand at year end was \$34,000,000 compared to \$26,000,000 at the end of 1967.

The Kettle Rapids power project being built on the Nelson River for the Manitoba Hydro Electric Board by a joint venture sponsored by McNamara Corporation Limited is over 60% complete and profits are in line with expectations. The Company's interest is 28%. During 1968 the Company was a member of a joint venture group which was awarded con-

tracts for the Churchill Falls underground power house in Labrador for Brinco and the Lower Notch generating station on the Montreal River near Cobalt for the Ontario Hydro-Electric Power Commission. Both projects are progressing favourably and the Company shall accrue profits therefrom in 1969. The Company's interest in these projects is 14% and 22½% respectively.

Supply and Engineering

Due to the adverse effect of high interest rates on the industries served by the supply companies, 1968 volume of business was down from \$24,000,000 in the preceding year to \$21,000,000. Most of this decrease was due to general business conditions in Quebec. In spite of the Quebec decrease the total profit of the supply companies was satisfactory and at approximately 1967 level.

McNamara Engineering Limited was sold during 1968 on a basis advantageous to the Company.

Marine

As forecast in last year's Report, the volume of work available to this division was curtailed because of the reduction in both Federal and Provincial public works programs. Consequently, earnings were sharply reduced. However, the back log of work on hand for 1969 is \$3,700,000, up \$1,300,000 from a year



ago, and indications point to the division regaining normal profit levels as soon as public works expansion and maintenance programs are resumed.

Filtration and Chemical Developments

Laboratory experimentation by our California subsidiary for a new process in the field of superphosphoric acid manufacturing has proven to be encouraging and discussions are currently being held with several major chemical companies. If these prove fruitful we will proceed with the further development of the process. Superphosphoric acid is one of the ingredients in the manufacture of commercial mixed fertilizer. The higher grade of superphosphoric acid is used in the food and detergent industries.

Concurrent with this research our subsidiary is developing a microfilter. This has potential application in the field of fluids filtration and field tests are presently taking place in various industries and with pollution control authorities.

MINING

Mining operations and ore treatment continued on a regular basis at the Icon-Sullivan Joint Venture mine in the Chibougamau area of Quebec in 1968 and during the calendar year 193,728 tons of ore were treated and 12,000,000 pounds of copper in concentrate form were

produced. The property was brought into production at a total cost of just over \$1,000,000, all of which had been reimbursed to the Joint Venture by June of 1968. The 21.4% interest held by Gunnex resulted in an income, after amortization, of \$442,000, in 1968.

Development

Operations at the Noradco Mine property in the Stewart area of British Columbia were renewed in early June of 1968 by the Noradco-Shield Joint Venture (Limited Partnership), but terminated on 24th September due to the early arrival of winter. Exploration and development included the establishment of a hoist adit at the top of the tramway and a third adit above the hoist level to permit exploration at that elevation. The second adit was driven through to the north side of Goat Ridge, and this work proved up a vein of ore grade with a length of 290 feet on that level. One ore pass raise was completed between the third and hoist adit levels. It is felt that the development of the strong vein on the second adit level justifies further exploration on parallel shears and on lower levels.

Ore reserves of proven, probable and possible vein material down to the third adit level are presently calculated at approximately 6,500 tons with an average cut grade of 0.31 ozs. gold and 139.50 ozs. silver per ton with a precious metal content of 2,000 ozs. of gold and 910,000 ozs. silver. Copper and zinc are also present

DIRECTORS' REPORT (CONTINUED)

and will be sold in a concentrate form. Metallurgical test work to date has indicated an excellent recovery can be secured by flotation procedure.

Additional funds are required for a renewal of the exploration program to prove the vertical and longitudinal extensions of the vein system on and below the third adit level. Present plans anticipate the construction of a concentrator when silver recovers from its present depressed price.

Exploration

Exploration activities during 1968 were conducted by Gunnex Limited in many areas in Canada and in the Southwest United States. A large portion of the work in Canada was carried out on a joint venture basis with Canadian Pacific Oil and Gas Limited, Gulch Mines Limited and Tombill Mines Limited. A joint venture agreement was also entered into with Cominco American Incorporated covering exploration in the United States. Prospecting and geological activities involving field prospecting, aerial and ground surveys using electromagnetic, radiometric, and geochemical means were conducted in specific areas. Trenching, mapping and diamond drilling were done where warranted. A considerable number of radioactive occurrences was found and additional prospecting will be done on these areas in 1969.

A 51-claim group, located 90 miles north-

east of Port Arthur, was optioned jointly with Tombill Mines Limited. This property covers copper mineralization in brecciation associated with strong fault zones. Ground geophysical surveys have been completed and diamond drilling is now in progress.

A group of 39 claims was staked jointly with Selco Exploration Company Limited in the Uchi Lake district of northwestern Ontario, where recent base metal discoveries have been made.

On a joint venture basis with Gulch Mines Limited, Gunnex has acquired a 50% interest in 200 claims in the Eastmain River district of northwestern Quebec on a belt containing many base metal prospects and now under active exploration by others. Aerial or ground geophysical surveys will commence this summer.

An agreement has been finalized whereby Gunnex, together with Canadian Pacific Oil and Gas Limited and Tombill Mines Limited, have acquired a working option agreement from Multi-Minerals Limited on a group of 256 claims in the Kipawa district in western Quebec. Exploration will include assessment of known radioactive showings as well as detailed surveys of much favourable geological formation.

Agreement has been reached between Cominco American Limited, Union Corporation Limited and Gunnar Mining Limited to con-



solidate interests in the various Spanish and Portuguese properties into two new companies in Spain and Portugal. Your Company continues to retain a minor interest in each of these new companies by virtue of original participation in exploration programs.

We are presently making arrangements to drill a copper property in the United States which is held outright.

OUTLOOK

The further extension of the Consortium Agreement with the Banks and the Bonding Company to December, 1970; the gradual expansion of our volume of new construction work at satisfactory margins; the evident prospects for improvement in overall profits from the supply divisions and the continuing profits from the Icon-Sullivan mine are causes for optimism.

The interest on our heavy bank indebtedness continues to impair our financial condition and constitutes a drain on the operating profits which would otherwise be available. As a result your directors are considering several alternative plans to alleviate this problem.

The various exploration programs being conducted by Gunnex Limited in which Canadian Pacific Oil and Gas Limited, Cominco American Incorporated, Gulch Mines Limited and Tombill Mines Limited are participating will continue throughout the year.

On behalf of the Board,

T. P. O'CONNOR,

President.

GUNNAR MINING LIMITED AND SUBSIDIARIES

ASSETS

CURRENT	1968	1967
Accounts and notes receivable, including \$814,000 retained by customers in accordance with contract provisions (1967: \$3,025,000)	\$ 7,700,000	\$13,511,000
Income taxes recoverable	904,000	1,437,000
Special refundable tax	159,000	123,000
Inventories for resale at the lower of cost and net realizable value	8,734,000	8,484,000
Construction equipment for resale	2,615,000	2,989,000
Investment in joint ventures	10,535,000	9,303,000
Contracts in progress, at the lower of cost and net realizable value, less progress billings	239,000	1,363,000
Prepaid expenses	437,000	241,000
	<u>31,323,000</u>	<u>37,451,000</u>
SUNDRY INVESTMENTS, at cost less amortization	1,139,000	1,584,000
PROPERTY, PLANT AND EQUIPMENT, at cost \$18,360,000		
Less accumulated depreciation	<u>10,076,000</u>	<u>8,955,000</u>
On behalf of the Board		
T. P. O'CONNOR, Director.		
J. N. BOTSFORD, Director.		
	<u>\$40,746,000</u>	<u>\$47,990,000</u>

The attached notes are an integr

Consolidated Balance Sheet

AS AT DECEMBER 31, 1968
(with comparative figures for 1967)

LIABILITIES

CURRENT	<u>1968</u>	<u>1967</u>
Bank indebtedness, secured	\$24,697,000	\$27,726,000
Accounts, notes payable and accrued charges, including \$136,000 retained from sub-contractors in accordance with contract provisions (1967: \$1,121,000)	5,450,000	9,132,000
Sundry taxes payable	108,000	135,000
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	30,255,000	36,993,000
Mortgages payable	—	877,000

SHAREHOLDERS' EQUITY

CAPITAL STOCK		
Authorized		
5,000,000 shares of \$1 each par value		
Issued and fully paid — 4,398,399 shares (1967: 4,341,649 shares)	\$ 4,398,000	
Add premium on shares, net	8,173,000	
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	12,571,000	
Deficit, as attached	2,080,000	
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	10,491,000	10,120,000
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	\$40,746,000	\$47,990,000
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rt of these financial statements.

GUNNAR MINING LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 1968

(with comparative figures for 1967)

	<u>1968</u>	<u>1967</u>
Gross revenue, including \$17,198,000 as share of joint venture revenue (1967 — \$11,384,000)	\$52,418,000	\$67,270,000
Income from operations before undernoted charges	\$ 3,373,000	\$ 3,001,000
Financial expense — net	1,915,000	1,892,000
Depreciation	941,000	965,000
Underprovision of prior years' taxes	262,000	—
	<u>3,118,000</u>	<u>2,857,000</u>
Net income for the year	<u>\$ 255,000</u>	<u>\$ 144,000</u>

CONSOLIDATED STATEMENT OF DEFICIT

FOR THE YEAR ENDED DECEMBER 31, 1968

(with comparative figures for 1967)

	<u>1968</u>	<u>1967</u>
Deficit January 1	\$ 2,335,000	\$ 6,549,000
Net income for the year	255,000	144,000
Prior year's depreciation adjustment	—	4,075,000
	<u>2,080,000</u>	<u>2,330,000</u>
Loss on sale of subsidiaries — net	—	5,000
Deficit December 31	<u>\$ 2,080,000</u>	<u>\$ 2,335,000</u>

The attached notes are an integral part of these financial statements.

GUNNAR MINING LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF WORKING CAPITAL

FOR THE YEAR ENDED DECEMBER 31, 1968

(with comparative figures for 1967)

SOURCE OF WORKING CAPITAL	<u>1968</u>	<u>1967</u>
From operations		
Net income	\$ 255,000	\$ 144,000
Expenses which did not require the outlay of funds		
Depreciation	940,000	965,000
Sundry	140,000	72,000
	<u>1,335,000</u>	<u>1,181,000</u>
Proceeds on issuance of shares	117,000	
Net book value of fixed assets sold	368,000	222,000
Proceeds on sale of sundry investment less applicable mortgages — net	40,000	
Construction equipment for resale — previously classified as non current	—	153,000
	<u>525,000</u>	<u>375,000</u>
	<u>1,860,000</u>	<u>1,556,000</u>
Application of working capital		
Note on sale of subsidiary	260,000	—
Purchase of fixed assets	682,000	1,016,000
Payments on mortgage principal	308,000	62,000
Purchase of mining interests	—	43,000
Sundry	—	71,000
	<u>1,250,000</u>	<u>1,192,000</u>
Increase in working capital	610,000	364,000
Working capital, January 1	458,000	94,000
Working capital, December 31	<u>\$ 1,068,000</u>	<u>\$ 458,000</u>

The attached notes are an integral part of these financial statements.

GUNNAR MINING LIMITED AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1968

1. The bank indebtedness is secured by charges on assets of the Company and all its wholly-owned operating subsidiaries.
2. It is the policy of the Company not to reflect claims for extra work in the financial statements until the compensation has been awarded.
3. Construction equipment for resale is valued at cost less accumulated depreciation to December 31 of the year preceding its transfer to this inventory account. This valuation is less than estimated net realizable values.
- 4.(a) The investment in joint ventures will be liquidated in the normal course of contract completion. Although completion may require more than one year, such investments are included in current assets.

(b) The Company has advanced on behalf of its co-venturer during the term of a joint contract approximately \$2,900,000 in excess of its own pro rata share of the joint venture's cash requirements. The collection of this amount from the co-venturer is currently the subject of an official arbitration hearing. In the opinion of management and their counsel a decision favourable to the Company will be forthcoming.
5. The Company has reserved 243,250 shares of unissued capital stock pursuant to an Employees' Incentive Stock Option Plan. Options were outstanding at January 16, 1969 for 223,250 shares granted at various dates in 1965, 1966, 1967, 1968 and on January 16, 1969 at prices ranging from \$3.15 to \$1.37 per share. These prices were equal to the closing bid price on the Toronto Stock Exchange at the grant date. During 1968 options were exercised for 56,750 shares for cash in the amount of \$117,000. The outstanding options are exercisable at various dates up to January 16, 1975.
6. Remuneration of Directors and Senior officers of Gunnar Mining Limited from that company and its subsidiaries for the year totalled \$207,000.
7. No provision for income tax has been reflected in the accounts due to the application of prior year losses.

AUDITORS' REPORT

The Shareholders,
GUNNAR MINING LIMITED.

We have examined the consolidated balance sheet of Gunnar Mining Limited and subsidiaries as at December 31, 1968 and the consolidated statements of income, deficit, and source and application of working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, subject to any adjustments which may arise from resolution of the matter set out in note 4(b), these financial statements present fairly the financial position of Gunnar Mining Limited and subsidiaries as at December 31, 1968 and the results of their operations and the source and application of working capital for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

TOUCHE, ROSS, BAILEY & SMART,
Chartered Accountants.

Toronto, Ontario,
March 5, 1969.

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